

SENATE FISCAL AGENCY ISSUE PAPER

MERIT AWARD PROGRAM

by

**Kathryn Summers-Coty
Fiscal Analyst**

April 2002



***A Series of Papers Examining Critical Issues Facing
the Michigan Legislature***

***Gary S. Olson, Director
Lansing, Michigan
(517) 373-2768
TDD (517) 373-0543***

Internet Address: www.senate.state.mi.us/sfa

THE SENATE FISCAL AGENCY

The Senate Fiscal Agency is governed by a board of five members, including the majority and minority leaders of the Senate, the Chairperson of the Appropriations Committee of the Senate, and two other members of the Appropriations Committee of the Senate appointed by the Chairperson of the Appropriations Committee with the concurrence of the Majority Leader of the Senate, one from the minority party.

The purpose of the Agency, as defined by statute, is to be of service to the Senate Appropriations Committee and other members of the Senate. In accordance with this charge the Agency strives to achieve the following objectives:

1. To provide technical, analytical, and preparatory support for all appropriations bills.
2. To provide written analyses of all Senate bills, House bills and Administrative Rules considered by the Senate.
3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

The Agency is located on the 8th floor of the Victor Office Center. The Agency is an equal opportunity employer.



Gary S. Olson, Director
Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536
Telephone (517) 373-2767
TDD (517) 373-0543
Internet Home Page <http://www.senate.state.mi.us/sfa/>

ACKNOWLEDGMENTS

The author would like to thank Pam Yeomans for preparing tables and coordinating production of this report. The Senate Fiscal Agency wishes to acknowledge the assistance of the Michigan Department of Treasury in providing data and information included in this report.

TABLE OF CONTENTS

| | Page |
|----------------------------------------------------------|------|
| INTRODUCTION | 1 |
| PUBLIC ACT 94 OF 1999 - MERIT AWARD PROGRAM | 1 |
| Michigan Merit Award Scholarship Trust Fund | 1 |
| Michigan Merit Award Scholarship Board | 2 |
| Michigan Merit Award Scholarship Program | 3 |
| Basic Information | 3 |
| Numbers Tested and Qualifying | 4 |
| Who is Qualifying and Where They are Enrolling | 5 |
| CONCLUSION | 8 |

INTRODUCTION

The Michigan Health and Hospital Association is preparing a ballot initiative earmarking 90% of the funds Michigan receives from tobacco settlement revenues, which would be “dedicated to improving the quality of health of the residents of this State”. The remaining 10% of tobacco settlement revenues would be deposited into the State’s General Fund.

At the present time, tobacco settlement revenues are appropriated to support a wide array of activities, the largest single expenditure being the Michigan Merit Award Scholarships. If the initiative described above is placed on the ballot and approved by voters, the Merit Award Program will be in jeopardy, since its source of funding will be directed elsewhere. This paper serves to describe only the history and scope of the Michigan Merit Award Program. If the initiative is placed on the ballot, the Senate Fiscal Agency will publish documents in the upcoming months detailing the proposal, as well as the other programs currently funded with tobacco settlement revenues that would be potentially affected by the initiative.

PUBLIC ACT 94 OF 1999 - MERIT AWARD PROGRAM

In November 1998, the Attorneys General of 46 states, including Michigan, reached an agreement with the five largest tobacco companies in the United States, ending long-running litigation between the states and the tobacco industry. In April 1999, the tobacco companies agreed with the State of Michigan’s settlement in Ingham County Circuit Court (docket no. 96-84281CZ), and the State began receiving tobacco settlement revenues beginning in fiscal year (FY) 1999-2000. In his 1999 State of the State Address, Governor John Engler proposed using tobacco settlement money to fund scholarships in the Michigan Merit Award Program. Legislation was introduced, and nearly three years ago, Public Act 94 of 1999 (MCL 390.1451-390.1459) was enacted to create the Michigan Merit Award Scholarship Trust Fund; to create the Michigan Merit Award Scholarship Board and prescribe the powers and duties of the Board; and to provide for the Michigan Merit Award Scholarship Program.

Michigan Merit Award Scholarship Trust Fund

Pursuant to statute, the Michigan Merit Award Scholarship Trust Fund received 30% of FY 1999-2000 tobacco settlement revenues (\$105.5 million), 50% of FY 2000-01 revenues (\$130.5 million), and, beginning in FY 2001-02, 75% of the tobacco money (\$240.4 million). Allowable expenditures from the Merit Award Trust Fund include scholarships, costs of preparing/scoring/disseminating the Michigan Education Assessment Program (MEAP) tests, Merit Award Board costs, and education savings programs or other expenditures as determined by law. Table 1 illustrates the revenues coming into the Fund and the expenditures from the Fund beginning in FY 1999-2000 through the Governor’s budget proposal for FY 2002-03. The balance of the tobacco settlement revenues received by the State is deposited into the Tobacco Settlement Trust Fund.

Table 1

| HOW THE MERIT AWARD TRUST FUND DOLLARS ARE APPROPRIATED | | | | |
|--------------------------------------------------------------------|------------------|------------------|------------------|--------------------------|
| Merit Award Trust Fund Appropriations (dollars in millions) | FY 1999- 2000 | FY 2000- 2001 | FY 2001- 2002 | Exec. Rec. FY 2002-03 |
| Higher Education: | | | | |
| Merit Award Scholarships | \$94.4 | \$82.3 | \$103.0 | \$114.3 |
| Tuition Incentive Program (TIP) | 5.3 | 5.3 | 5.3 | 5.3 |
| Community Colleges: | | | | |
| Postsecondary Access Student Scholarship | 0.0 | 0.0 | 2.0 | 2.0 |
| Department of Treasury: | | | | |
| Michigan Education Assessment Program | 0.0 | 16.4 | 16.5 | 16.5 |
| Merit Award Board | 2.9 | 2.0 | 2.0 | 2.0 |
| TIP Administration | 0.0 | 0.4 | 0.4 | 0.4 |
| Michigan Education Savings Program | 0.0 | 0.0 | 1.0 | 1.0 |
| Lapse to General Fund | 0.0 | 0.0 | 131.5 | 100.0 |
| Total Merit Award Trust Fund | \$102.6 | \$106.4 | \$261.6 | \$241.5 |
| Merit Award Trust Fund Revenues: | | | | |
| Beginning Balance | 0.0 | 7.2 | 39.9 | 25.6 |
| Current Year Revenues | 105.5 | 130.5 | 240.4 | 246.5 |
| Trust Fund Interest | <u>4.3</u> | <u>8.6</u> | <u>7.0</u> | <u>6.4</u> |
| Total Revenues | \$109.8 | \$146.2 | \$287.3 | \$278.5 |
| Merit Award Trust Fund Balance | \$7.2 | \$39.9 | \$25.6 | \$37.0 |

Michigan Merit Award Scholarship Board

The Merit Award Board was established to increase access to postsecondary education and reward Michigan high school graduates who have demonstrated academic achievement. The Board consists of seven members. The members include the State Treasurer or his or her designee, the Superintendent of Public Education or his or her designee, the Director of the Department of Career Development or his or her designee, and four members appointed by the Governor with the advice and consent of the Senate. The State Treasurer or his or her designee serves as the chairperson of the Board.

The Board establishes qualifying results that determine eligibility requirements for Merit Awards. In other words, the Board governs the scoring requirements for the awarding of scholarships. The Board does not determine the *methods* by which a student becomes eligible for a Merit Award, since this is prescribed by law, but does control the scoring benchmarks within the methods. The Board also is charged with receiving questions, comments, and complaints regarding the assessments. The Board must meet at least once a year, and publish an annual report which includes a list of approved postsecondary education institutions, the number and amount of scholarships awarded, ranges of qualifying test scores, and expenditure information.

Michigan Merit Award Scholarship Program

Basic Information

Beginning with the graduating class of 2000, a student is eligible for a Merit Award scholarship only if he or she takes the high school MEAP test in the subject areas of reading, writing, mathematics, and science and meets one of the following criteria:

1. Receives qualifying results in all four of the subject areas of reading, writing, mathematics, and science. (At this time, the Board has defined “qualifying results” as scoring a Level 1, Exceeds Michigan Standards, or Level 2, Meets Michigan Standards, in a subject area.)
2. Receives qualifying results in at least two of the subject areas, and receives an overall score in the top 25% of a nationally recognized college admission examination. (At this time, the Board has defined a “nationally recognized college admission examination” to be either the Scholastic Aptitude Test (SAT) or the American College Testing Program (ACT).)
3. Receives qualifying results in at least two of the subject areas, and receives a qualifying score on a nationally recognized job skills assessment test. (At this time, the Board has designated the ACT WorkKeys test for eligibility.)

Generally, high school students are given their first opportunity for taking the MEAP high school exam while in 11th grade. Additional testing opportunities are provided for students desiring to retake the exam; at this time, fall and spring retesting windows in the student’s senior year are generally made available. Therefore, students typically have three opportunities for achieving a qualifying score on all portions of the MEAP high school exam in order to become eligible for a Merit Award.

The value of the high school scholarship is \$2,500 if a student enrolls in an in-State approved postsecondary institution, or \$1,000 for use at an out-of State facility. In order to receive the scholarship, a student must graduate from high school or pass the General Educational Development (GED) test; must not have been convicted of a felony involving assault, physical injury, or death; and must be enrolled at an approved establishment.

The scholarship itself is paid directly to the postsecondary institution (not the student) to cover eligible costs, and the institution is cautioned not to consider the Merit Award in determining a student’s eligibility for financial aid or to reduce financial aid because of the scholarship. Eligible costs include tuition and fees, room and board, books, supplies, transportation, day care, or other costs approved by the Board.

Beginning with 7th grade students in the 1999-2000 school year (the graduating class of 2005), up to \$500 more can be earned under the Merit Award Program, for a possible Merit Award scholarship total of \$3,000. Students in 7th and 8th grades are tested on two subjects per year, and those who receive qualifying results in two of the four MEAP subject areas of reading, writing, math, and science will be eligible for an additional scholarship of \$250;

three subject areas will equate to a \$375 additional scholarship; and success in all four areas will yield the maximum \$500 additional scholarship. Students **must** qualify for a high school award in order to receive scholarships earned while in 7th and 8th grades.

The Michigan Merit Award is available to all Michigan students including public school, public school academy, nonpublic school, and home schooled students who meet all eligibility requirements. This also includes Michigan residents attending a high school out-of-State or out of the country.

Numbers Tested and Qualifying

Before the Merit Award Program was created, the number of public school students statewide taking the high school exam averaged 90,000 in 1996 and 1997. After 1997, a lot of negative publicity surrounded the test, and the numbers tested declined substantially in 1998 to roughly 69,000. However, in the first testing cycle after the scholarship incentive was announced (spring 1999), the participation of public high school students rebounded with an increase of 16% to approximately 80,000, with a final tally of nearly 91,000 tested for the graduating class of 2000. Table 2 illustrates participation rates from 1996 through the graduating class of 2001.

Table 2

| TEST TAKERS BY TESTING CYCLE | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| Testing Cycle | Average Number of Test Takers* |
| Winter 1996 | 90,959 |
| Winter 1997 | 90,044 |
| Winter 1998 | 69,412 |
| Spring 1999 | 80,605 |
| Class of 2000 (includes Spring 1999, Winter 2000, and Spring 2000 Test Takers) | 90,971 |
| Class of 2001 (includes Spring 2000, Winter 2001, and Spring 2001 Test Takers) | 87,786 |
| * These averages were determined by summing the number of test takers in each subject category (excluding social studies) and dividing by the total number of tests (four). | |

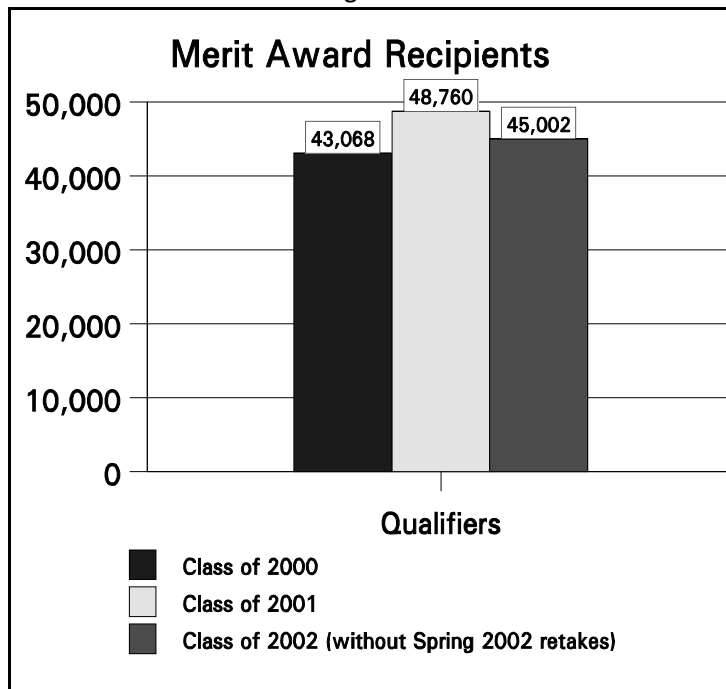
The numbers of students scoring in Level 1 or Level 2 in each category have changed dramatically since the inception of the Merit Award, beginning with the spring 1999 test. Table 3 illustrates the percentage of public school students scoring in Level 1 or Level 2 for each subject category. From these data, one can see that the percentages of test takers scoring in Level 1 or Level 2 are increasing over time.

Table 3

| PERCENT SCORING IN LEVEL 1 OR LEVEL 2 | | | | |
|---------------------------------------|------|---------|---------|---------|
| Year | Math | Reading | Science | Writing |
| 1998 | 60.5 | 58.9 | 51.7 | 56.6 |
| 1999 | 63.6 | 67.3 | 51.0 | 52.5 |
| Class of 2000 | 64.8 | 69.4 | 55.6 | 58.4 |
| Class of 2001 | 68.4 | 74.2 | 60.3 | 68.5 |

These scoring trends equate to a growing number of Merit Award recipients, illustrated in Figure 1 with data from the Department of Treasury as of March 26, 2002. The Class of 2002 total does **not** include those students who will retest in the spring of 2002. In the past, approximately 6,000 additional Class of 2000 students qualified for a Merit Award from the spring retest, and roughly 5,000 additional Class of 2001 students qualified. Therefore, it is anticipated that at least 5,000 more students in the Class of 2002 will become eligible for a Merit Award over the coming months, bringing the total qualifiers to an estimated 50,000. Who is Qualifying and Where They are Enrolling

Figure 1



Tables 4 and 5 highlight, respectively, the 10 local school districts with the highest percentage of 12th graders earning a Merit Award, and the 10 local school districts with the lowest percentage of 12th graders earning a Merit Award, for the Class of 2001. The tables also include a ranking of the school districts' 1999 average adjusted gross income (AGI), where a ranking of "1" would indicate the highest average adjusted gross income in the State, and

a ranking of "555" would indicate the lowest. A school district's average AGI reflects primarily the average wages and salaries earned by a resident of the district, adjusted by certain allowable expenses.

Table 4

| 10 DISTRICTS WITH HIGHEST PERCENTAGE OF 12TH GRADERS EARNING A MERIT AWARD | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|----------------------------------|-----------------------------|--------------------------------------|
| County | District Name | 2001 Merit Awardees | 2001 12 th Graders | Percent Earning Award | 1999 AGI Ranking (1 = Highest) |
| CHARLEVOIX | Beaver Island | 6 | 6 | 100.00 | 232 |
| SAGINAW | Chesaning Union | 128 | 141 | 90.78 | 343 |
| BARRY | Thornapple- Kellogg | 166 | 194 | 85.57 | 139 |
| KENT | East Grand Rapids | 174 | 208 | 83.65 | 6 |
| HOUGHTON | Calumet | 78 | 96 | 81.25 | 532 |
| LEELANAU | Leland | 24 | 31 | 77.42 | 125 |
| INGHAM | Okemos | 260 | 336 | 77.38 | 12 |
| GENESEE | Grand Blanc | 311 | 402 | 77.36 | 29 |
| KALAMAZOO | Schoolcraft | 63 | 83 | 75.90 | 95 |
| BAY | Essexville Hampton | 111 | 148 | 75.00 | 145 |
| * Data Source Notes: 12 th Grade data were taken from the Michigan Department of Education 2001 Pupil Headcount Data files. 2001 Merit Awardees were provided in an October 2001 data file by the Michigan Department of Treasury. The 1999 AGI Rankings were also provided by Treasury. This analysis excludes public school academies and private schools. | | | | | |

Table 5

| 10 DISTRICTS WITH LOWEST PERCENTAGE OF 12 TH GRADERS EARNING A MERIT AWARD | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------------------|----------------------------------|-----------------------------|---------------------------------------|
| County | District Name | 2001 Merit Awardees | 2001 12 th Graders | Percent Earning Award | 1999 AGI Ranking (555 = Lowest) |
| WAYNE | Highland Park | 3 | 111 | 2.70 | 544 |
| SAGINAW | Buena Vista | 3 | 70 | 4.29 | 493 |
| BERRIEN | Benton Harbor | 10 | 199 | 5.03 | 546 |
| WAYNE | Westwood | 8 | 142 | 5.63 | 335 |
| MUSKEGON | Muskegon Heights | 5 | 75 | 6.67 | 555 |
| GENESEE | Beecher | 6 | 83 | 7.23 | 551 |
| OAKLAND | Pontiac | 41 | 336 | 9.40 | 362 |
| VAN BUREN | Covert | 3 | 27 | 11.11 | 547 |
| OAKLAND | Oak Park | 24 | 214 | 11.21 | 265 |
| WAYNE | Ecorse | 4 | 33 | 12.12 | 541 |
| * Data Source Notes: 12 th Grade data were taken from the Michigan Department of Education 2001 Pupil Headcount Data files. 2001 Merit Awardees were provided in an October 2001 data file by the Michigan Department of Treasury. The 1999 AGI Rankings were also provided by Treasury. This analysis excludes public school academies and private schools. | | | | | |

While there appears to be a correlation between AGI ranking and Merit Award recipients for the 10 districts with the lowest percentages of seniors earning an award (i.e., seven out of 10 have AGI rankings in the bottom 10% of the State), there is not such a clear relationship for the 10 districts with the highest percentages. As shown by [Table 4](#), while three of the districts *are* ranked in the top 10% of the State for AGI, one is ranked approximately in the middle of districts statewide, another is ranked at 60%, and one district (Calumet) graduated four out of five of its seniors with a Merit Award, but was ranked in the bottom 10% of adjusted gross income (532 out of 555).

Turning to an analysis of where these students enroll for postsecondary instruction and use their Merit Awards, [Table 6](#) highlights both in-State and out-of-State usage, and the top five enrollers of Merit Award recipients for the Class of 2001. Data gathered over the past several years by the National Center for Education Statistics indicate a trend where roughly 10% of postsecondary enrollment occurs out-of-State for Michigan, with the other 90% remaining in-State. [Table 6](#) supports this trend (for those students who have indicated where they are enrolling), with 9.6% enrolling at out-of-State facilities, and the other 90.4% attending in-State colleges, universities, or technical or vocational institutions. Again, students who use their Merit Awards out-of-State receive \$1,000, and those who remain in-State receive \$2,500. A Merit Award recipient may enroll out-of-State, receive \$1,000, then later enroll at a Michigan postsecondary institution and receive the other \$1,500, provided this is done within

statutory time limitations. Current law allows eligible award recipients up to seven years to receive the monetary award. A bill pending in the Legislature (Senate Bill 926) would reduce this provision from seven to two years.

Table 6

| WHERE CLASS OF 2001 MERIT AWARD RECIPIENTS ARE ENROLLING | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Institution | Numbers Enrolled |
| In-State | 32,480 |
| Out-of-State | 3,456 |
| Not Indicated* | 12,636 |
| TOTAL | 48,572 |
| Michigan State University | 4,470 |
| University of Michigan-Ann Arbor | 2,642 |
| Western Michigan University | 2,542 |
| Central Michigan University | 2,168 |
| Grand Valley State University | 1,797 |
| * Current law allows Merit Award recipients up to seven years to designate a postsecondary institution for use of the scholarship. Therefore, though these students graduated in 2001, they currently have until 2008 to decide where to apply the award. | |

CONCLUSION

This paper was designed to give a full description of the Merit Award Program, funded with tobacco settlement revenues, and to highlight some of the results to date. Clearly, the Michigan Merit Award has had an impact on a large number of students since its inception for the Class of 2000, and will continue to do so if funding is available and the statutory provisions remain in place. Critics question whether the scholarships are equitable for students across the State, and others argue that tobacco settlement dollars should support health funding and tobacco use prevention programs. This fall, voters in Michigan may weigh in on the debate and decide the fate of the program.